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Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1994



AUDITOR'S REPORT

To the Shareholders of
RICOCHE T INDUSTRIES INC.

I have audited the consolidated balance sheet of **RICOCHE T INDUSTRIES INC. (Formerly Pacific 88 Investment Corp.)** as at December 31, 1994 and the consolidated statements of income and deficit and changes in cash resources for the period from inception, April 5, 1994 to December 31, 1994. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

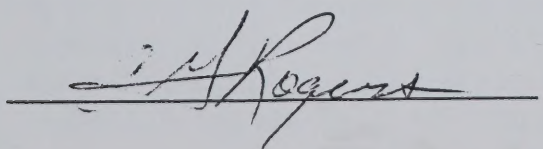
Calgary, Alberta
May 12, 1995

STAN PELOSKI
Chartered Accountant

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1994

	<u>Note</u>	
ASSETS		
CURRENT		
Cash		\$ 13,337
Accounts receivable		20,395
Inventories		<u>55,186</u>
		88,918
DEFERRED DEVELOPMENT COSTS	4	370,357
GOODWILL AND RIGHTS	5	<u>167,500</u>
		<u>\$ 626,775</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities		\$ 32,403
Loan payable	6	<u>10,000</u>
		42,403
LONG TERM DEBT	7	<u>10,000</u>
		<u>52,403</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL	8	576,822
DEFICIT		<u>(2,450)</u>
		<u>574,372</u>
		<u>\$ 626,775</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director



RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
CONSOLIDATED STATEMENT OF CHANGES IN CASH RESOURCES
FOR THE PERIOD FROM INCEPTION, APRIL 5, 1994
TO DECEMBER 31, 1994

CASH WAS PROVIDED BY (USED IN)
OPERATIONS

Loss for the period	\$ (2,450)
Changes in non-cash working capital components	
Accounts receivable	(20,395)
Inventories	(55,186)
Accounts payable and accrued liabilities	<u>32,403</u>
	<u>(45,628)</u>

INVESTING ACTIVITIES

Deferred development costs	(370,357)
Goodwill and rights	<u>(167,500)</u>
	<u>(537,857)</u>

FINANCING ACTIVITIES

Loan payable	10,000
Long term debt	10,000
Issuance of share capital	<u>576,822</u>
	<u>596,822</u>

INCREASE IN CASH FOR THE PERIOD AND CASH, end of period **\$ 13,337**

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
FOR THE PERIOD FROM INCEPTION, APRIL 5, 1994
TO DECEMBER 31, 1994

INTEREST INCOME	<u>\$ 3,141</u>
EXPENSES	
Public company costs	3,657
Professional fees	1,216
Administrative	<u>718</u>
	<u>5,591</u>
LOSS FOR THE PERIOD AND DEFICIT, end of period	<u>\$ (2,450)</u>
Loss per share	<u>(.0006)</u>

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994

1. BASIS OF CONSOLIDATION AND PRESENTATION

Ricochet Industries Inc. (the Corporation) was incorporated on April 5, 1994, under the Business Corporations Act (Alberta), as 605864 Alberta Inc. On April 19, 1994 the name of the Corporation was changed to Pacific 88 Investment Corp. and on November 4, 1994 the name was change to Ricochet Industries Inc. The Corporation was classified as a Junior Capital Pool Corporation until November 2, 1994, when it completed its major transaction, the acquisition of 100% of the issued and outstanding shares of Plasti-Guard Industries Inc. (Plasti-Guard), in consideration of the issuance of 2,500,000 common shares of the Corporation.

These financial statements have been prepared using the purchase method of consolidation whereby the assets and liabilities of the acquired company are initially recorded at their cost and the results of operations of the acquired company are included from the date of acquisition.

Under this method of accounting for business combinations, the cost of the purchase is determined on the basis of the quoted market value of the shares given as consideration or, where the quoted market price is not indicative of the fair value of the shares issued or the fair value of the shares is not otherwise clearly evident, the cost of the purchase is determined on the basis of the fair value of the net assets acquired. With respect of the purchase of Plasti-Guard, the market price of the shares was not considered indicative of the fair value of the shares issued. Accordingly, the cost of the purchase has been determined on the basis of the fair market value of the net assets acquired, being \$254,845, as follows:

Net assets acquired, excluding goodwill	\$ 114,845
Goodwill	<u>140,000</u>
Deemed value of shares issued	254,845
Less costs related to the acquisition	<u>73,678</u>
Net addition to share capital	<u>\$ 181,167</u>

2. NATURE AND CONTINUANCE OF OPERATIONS

The Corporation's wholly-owned subsidiary, Plasti-Guard, has been involved in development of a protective plastic film. Activities to date consist of research and development, including design and testing and evaluating the product for commercial production. Currently, the product and sales network development are substantially complete and Plasti-Guard has received a very positive market response to its products within Canada and the United States of America. Subsequent to December 31, 1994, Plasti-Guard has changed its name to Ricochet Products Inc., as described in Note 11.

The Corporation expects that Plasti-Guard will enter the initial phase of commercial activity of its product in Canada and the United States of America in the near future. The ability of the Corporation to continue as a going-concern is dependant on management carrying out their business and marketing plans and arranging additional financing. Plasti-Guard presently has incidental sources of revenue and is meeting all of its current obligations.



RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994

2. NATURE AND CONTINUANCE OF OPERATIONS continued

Subsequent to December 31, 1994 the Corporation has arranged additional financing through the issuance of debentures, as described in Note 11.

3. SIGNIFICANT ACCOUNTING POLICES

These financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following polices:

Inventories

Inventories are valued at the lower of cost, on a first-in first-out basis, and net realizable value.

Deferred Development Costs

Deferred development costs have been capitalized. The Corporation's management has deferred all costs that are related to development of its product and establishing a market for the product. These cost include design, manufacturing and testing, market research and promotion, travel, consulting and professional fees and general administration. Incidental revenue has been deducted from these costs. Upon commencement of commercial activity, the deferred development costs will be amortized over an appropriate period of time to be determined by management.

Management has deferred these costs into future periods as they believe all the required criteria for capitalization are satisfied: the product is clearly defined and costs can be identified, the technical feasibility of the product has been established, management has indicated its intention to market the product, the future market has been clearly defined and management is obtaining adequate resources to complete the project.

Goodwill and Rights

Goodwill and Rights relate to the development and marketing of the Corporation's product. Accordingly, amortization thereof, over a ten year period, has been deferred until commencement of commercial activity.

Foreign Currency Translation

Amounts denominated in foreign currencies are translated using the temporal method, whereby non-monetary items and revenues and expenses are translated at historical exchange rates and monetary items are translated at the rate of exchange in effect at the balance sheet date.

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994

4. DEFERRED DEVELOPMENT COSTS

Costs, as described in Note 3	\$ 402,871
Incidental revenue	<u>(32,514)</u>
	<u>\$ 370,357</u>

5. GOODWILL AND RIGHTS

Goodwill	\$ 140,000
Rights	<u>27,500</u>
	<u>\$ 167,500</u>

Goodwill, including intellectual property, represents the amount attributed on the Corporation's purchase of Plasti-Guard, as described in Note 1.

Rights represent the cost of acquisition of exclusive Canadian distribution rights for the protective plastic film and related products.

6. LOAN PAYABLE

Lancaster Holdings Ltd., unsecured, non-interest bearing	<u>\$ 10,000</u>
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This loan is classified as a current liability as management has indicated repayment of the loan will occur within the next fiscal year.

Lancaster Holdings Ltd. is owned by a shareholder of the Corporation.

7. LONG TERM DEBT

Reican Industries Ltd., Promissory Note Payable, unsecured, non-interest bearing, maturing January 1, 1996	<u>\$ 10,000</u>
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This debt relates to the acquisition of rights described in Note 5. Reican Industries Ltd. is a shareholder of the Corporation by virtue of shares received as partial consideration for the purchase of the rights.

RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994

8. SHARE CAPITAL

Authorized

Unlimited number of common voting shares
20,000,000 preferred shares
20,000,000 redeemable preferred shares

Issued

7,525,000 common shares \$ 631,167

Share issuance costs

(54,345)

\$ 576,822

During the period ended December 31, 1994, the Corporation:

- (a) Established a stock option plan for directors, officers, employees and consultants and granted options entitling the holders to purchase 450,000 common shares at \$0.10 per share, expiring April 19, 1999. 150,000 common shares under the plan have been exercised at December 31, 1994.
- (b) Issued an option to its agent, McDermid St. Lawrence Chisholm Ltd., to purchase 300,000 common shares of the Corporation at \$0.10 per share, expiring May 2, 1996. 150,000 common shares under this option have been exercised at December 31, 1994.
- (c) Authorized a private placement of 60,000 common shares at \$0.15 per share.

Share capital was raised as follows:

	Number of Shares	Consideration
Initial capitalization	1,500,000	\$ 75,000
Public offering	3,000,000	300,000
Issuance of shares in consideration for shares of Plasti-Guard Industries Inc. (Note 1)	2,500,000	181,167
Issuance of shares in consideration of services rendered with respect to Plasti-Guard acquisition	200,000	40,000
Issuance of shares as partial consideration for acquisition of rights (Note 5)	25,000	5,000
Exercise of options by directors, officers, employees and consultants	150,000	15,000
Exercise of options by agent	<u>150,000</u>	<u>15,000</u>
	<u>7,525,000</u>	<u>\$ 631,167</u>



RICOCHET INDUSTRIES INC.
(Formerly Pacific 88 Investment Corp.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1994

9. CONTINGENT LIABILITY

The Corporation is contingently liable to the Canadian Western Bank in respect of a Letter of Credit, in the amount of \$35,000 U.S. issued in favor of Piedmont Plastics Inc., Plasti-Guard's major supplier.

The Letter of Credit is secured by a General Security Agreement from Plasti-Guard Industries Inc. and a Limited Liability Guarantee from a shareholder of the Corporation.

10. RELATED PARTY TRANSACTIONS

During the period the Corporation entered into transactions with related parties as follows:

- (a) The Corporation is indebted to a company controlled by a shareholder of the Corporation as described in Note 6.
- (b) The Corporation is indebted to a shareholder by virtue of the acquisition of rights as described in Notes 5, 7 and 8.
- (c) A shareholder has issued a Limited Liability Guarantee in respect of the Letter of Credit described in Note 9.

11. SUBSEQUENT EVENTS

Subsequent to December 31, 1994, the Corporation's subsidiary, Plasti-Guard Industries Inc., has changed its name to Ricochet Products Inc.

Also subsequent to the end of the period the Corporation has:

- (a) Obtained approval for the issue of up to 125 convertible debenture units at a price of \$1,000 per unit. The units are convertible into common shares on the basis of 1 common share for each \$0.10 of principal. The debentures mature March 1, 1997. At the report date, 58 debentures have been issued.
- (b) Reserved an additional 50,000 common shares under the stock option plan for directors, officers, employees and consultants and granted options for the 50,000 shares, exercisable at \$0.20 per share, expiring January 4, 1997.
- (c) Issued 60,000 common shares, for consideration of \$9,000, pursuant to the private placement authorized during 1994 (Note 8).